



## **CHT 4Q2016 Results**

### **January 25, 2017 at 3:00 P.M. (Taipei Time)**

Thank you. This is Fufu Shen, the Director of Investor Relations for Chunghwa Telecom. Welcome to our fourth quarter 2016 results conference call. Joining me on the call today are Mr. Sheih, Chunghwa Telecom's President and Mr. Chen, our CFO.

During today's call, management will first discuss the overview of our business during the quarter, followed by operational and financial highlights, then we will move on to the Q&A session.

I would like to remind you that a number of forward-looking statements will be made during this conference call. Forward-looking statements are any statements that are not historical facts. These forward-looking statements are based on the current expectations of Chunghwa and there can be no assurance that such expectations will prove to be correct. Because forward-looking statements involve risks and uncertainties, Chunghwa's actual results could differ materially from these statements.

This presentation is being made on January 25, 2017. The content of this presentation contains time-sensitive information that is accurate only as of the time hereof. If any portion of this presentation is rebroadcasted, retransmitted, or redistributed at a later date, Chunghwa will not be reviewing or updating the material that is contained therein. Please note our safe harbor statement on slide 2

Before I turn the call over to President Sheih, I would like to make a brief introduction. Mr. Sheih has served in many different management positions within Chunghwa Telecom over the past years and is extremely familiar with our broad and comprehensive telecommunications platform. Before taking this position as the President of Chunghwa, he was a Senior Executive Vice President, supervising marketing, information security and customer service. He was also responsible for the establishment of our Big Data Office and Cyber Security Department.

Now, I would like to hand the call over to President Sheih.

#### *Chunghwa Telecom Overview*

Thank you, Fufu and hello everyone. Welcome to our fourth quarter 2016 earnings conference call. To begin, let me first start out by saying that it is an honor to be promoted to President for this Company which I've spent most of my career helping build. In this new role, let me share with you the mission and operational strategies for Chunghwa Telecom's long-term development which I have co-developed with Mr. Yu Cheng, who was appointed as the Company's new Chairman and CEO. First of all, we will focus on further cross-selling our high-quality and diversified services to our business and retail customers. While at the same time, closely reviewing the efficiency and

effectiveness of our marketing activities to further streamline it and strengthen profitability. Secondly, to stay in front of and capitalize on our industry's trends, we will leverage our integrated networks and service platforms to promote digital convergence services and develop new opportunities in innovative business lines, including ICT, IOT and OTT etc. Third, pursuant to the government's new southbound development policy, we will explore opportunities to strengthen our cooperation with companies in ASEAN countries and expand our geographic footprint. Fourth, we will internally broaden our corporate governance initiatives to ensure that Chunghwa will continue to be a leading model in fulfilling its corporate social responsibility. Finally, we will continue to drive investment into talent, network construction and technology R&D to maintain our longer term competitiveness.

Now let's take a look at our business overview. For our mobile business, even though we are the market leader in Taiwan, we did experience some customer turnover during the fourth quarter. Even with the fierce competition in this business, we were able to slow customer loss as compared to the previous quarters. We continued to retain our market leading position in mobile subscriber and mobile revenue, which was primarily attributable to our entire team's effectively streamlined marketing efforts. Going forward, we will continue to streamline our marketing activities, aiming to further strengthen our customer loyalty and retention.

For our broadband business, the intense competition from cable operators resulted in some customer loss for 2016. However, due to our precision marketing and improved product offerings, the loss was mitigated as compared to 2015. Going forward, we will continue to leverage our big data analysis capability and promote diversified digital convergence services to defend our market share.

#### Number One Mobile Services Provider

Now I will walk you through each of our business lines. On slide 5, I would like to update you on our mobile business.

Due to market competition and SIM card consolidation, our total mobile subscribers decreased by 3.5% year over year to 10.8 million. However, subscriber count stabilized in the fourth quarter, primarily due to improved customer targeting and increased marketing.

To cater to our customers' demands and compete more effectively with other players in the market, we launched new promotional plans at the beginning of this year, targeting both mid-to-low, and mid-to-high tier customers, separately. With the new plans, we further raised the bar for unlimited data usage as we aim to continue shepherding the market towards tier-pricing structure. Going forward, we will continue to weigh the risks and rewards of adjusting our pricing strategy, but we will remain consistent in strengthening of our subscriber acquisition and retention initiatives to further solidify our market share. Meanwhile, we will increase our overall revenues by encouraging customers to subscribe to second SIM cards for usage with wearable devices and IoT applications as well as further growing our enterprise customer revenues

#### Fixed Broadband and Internet Services

Slide 6 shows the performance of our broadband business.

During the fourth quarter of 2016, we continued to see a migration of subscribers to higher-speed fiber services. Further, the number of users signing up for connection speeds of 100Mbps or higher grew by 11.1% year over year to 1.17 million. We are pleased with the results we are seeing and will continue to promote and upsell our broadband services and encourage customer migration to

higher speed services. We believe we are taking the right steps to further improve user experience and user stickiness on our network.

### MOD/IPTV Service

Moving on to slide 7.

After the adjustment of our cooperation agreement with channel providers from the third quarter of 2015, our IPTV revenues stabilized in the third quarter of 2016. For the fourth quarter of 2016, IPTV revenue increased by 6.3% year over year, primarily driven by the healthy growth of IPTV and SVOD subscribers. More specifically, by the end of 2016, we accumulated 718 thousand SVOD subscribers, which exceeded our original target. Additionally, household TV usage rate also increased to 72.2%. Going forward, we will continue to enrich the IPTV content and offer upsell packages to increase customers' contribution and total revenues

### ICT and Cloud Computing Initiatives

Please turn to slide 8 for an update on our ICT initiatives.

We are delighted to see continued solid growth in our ICT businesses in 2016 and aim to continue to leverage our competitive advantage in network infrastructure, IDC, and CDN, to offer reliable, customized and comprehensive ICT solutions to our enterprise customers.

Additionally, by leveraging our cloud, big data, and information security capabilities, we established an IoT platform that develops green energy, smart building, video surveillance, and intelligent transportation solutions for enterprises to facilitate their business development. By leveraging our network and cloud resources, enterprises from different industries can also develop their own solutions over the platform.

Now, I would like to hand over the call to Mr. Chen for our financial results

### Financial Overview

Thank you President Shih. Now I will go through our financial results in details, beginning on slide 10.

### Income Statement Highlights

Slide 10 provides you with highlights from our income statement.

For the fourth quarter of 2016, total revenues decreased by 6.2% and operating costs and expenses decreased by 5.7% year over year. Our income from operations decreased by 12.7% and our net income decreased by 18.3%. In addition, our EBITDA margin decreased to 30.9% in the fourth quarter of 2016, as compared to 31.5% in the same period of 2015.

### Business Segment Revenues

Please refer to slide 11 for revenue breakdown by business segments.

The decline in total revenue for the fourth quarter of 2016 was driven by the decrease in voice revenue, smart device sales and ICT project revenue, which was partly offset by the increase in mobile VAS revenue and application VAS revenue under internet segment.

### Costs and Expenses

Moving on to slide 12. Our operating costs and expenses decreased by 5.7% year over year in the fourth quarter of 2016, primarily driven by the lower cost of goods sold, interconnection expense, and ICT project costs.

#### Cash Flow & EBITDA Margin

On slide 13, cash flow from operating activities for the fourth quarter of 2016 increased by NT\$4.6 billion, or 15.7%, as compared to the same period of 2015, which was primarily attributable to the decrease in receivables and inventory, partially offset by the decrease in payables.

As of December 31, 2016, we had NT\$32.1 billion of cash and cash equivalent.

On EBITDA margin, the increased sales of iPhone brought down the overall EBITDA margin on a year over year basis in the third quarter.

#### Operating Results vs. Forecast

Slide 14 shows our operating results as compared to our guidance.

We are pleased that our performance in 2016, including net income and EPS, met our full year guidance. The lower-than-expected operating income in the fourth quarter of 2016 was mainly due to the impairment of 2G equipment, and net income was further impacted by the impairment from the China Airline investment.

#### 2017 Forecast

Moving on to slide 15, which shows our 2017 consolidated guidance.

Looking ahead, total revenue for 2017 is expected to increase by 0.5% to NT\$231.2 billion. The increase in revenue is expected to come from the expansion of mobile value-added service, smart device sales and enterprise ICT business. Operating costs and expenses for 2017 are expected to increase by 2.8% to NT\$186.46 billion, primarily driven by the growth in our ICT business, mobile internet service, smart device sales, and the enhancement of digital content. Additionally, amortization expenses for the 4G license will increase year over year. Given these projections, we expect a 7.1% year-over-year decrease in operating income and a 7.8% year-over-year decline in net income.

#### Effective and Efficient Capital Expenditure

Lastly, moving on to slide 16.

Our capex spending in 2016 was NT\$23.5 billion, which was much lower than the budgeted amount of NT\$30.6 billion. The difference mainly came from price negotiations with vendors during the procurement, our internal optimization review process, as well as changes in projects that have been cancelled or deferred to 2017. For 2017, we are budgeting NT\$30.3 billion in capex, including the deferred items from 2016. We will continue to invest in 4G, FTTx, our various service platforms, as well as IDC and Cloud businesses.

Thank you for your attention. We will now open up for questions.

**- Q&A Session -**